DEENA ENERGY · INC.

1996 ANNUAL REPORT

Deena Corporate Profile

Deena Energy Inc. is an emerging junior oil and gas company with operations in Western Canada. The Company is exploration focused and has generated a number of attractive prospects both domestically and internationally. Deena trades on the Alberta Stock Exchange under the symbol DNG.

Annual Meeting

The annual general meeting of shareholders will be held on Friday, June 27 at 9:00 A.M. in the Black Gold Room at the Sandman Inn, 840 - 7th Avenue S.W., Calgary, Alberta.

1996 Highlights

	1996	1995
Average Production	250 Boe/d	300 Boe/d
Revenue	$1,637,398	$1,685,454
Cash Flow	$ 472,450	$ 459,442
Cash Flow per Share	$ 0.04	$ 0.04
Earnings	$ (342,536)	$ (132,594)
Earnings per Share	$ (0.03)	$ (0.01)
Capital Expenditures	$1,518,810	$1,683,793
Year End Common Shares	11,884,525	11,963,567

DEENA ENERGY · INC.

Letter to the Shareholders

Highlights for Deena for the year ending 1996 include:

- Participated in the drilling of 4 gross wells (1.4 net) of which 2 were cased and are currently producing.
- Reached an agreement to divest of certain nonstrategic properties to reduce the outstanding balance on the Company's line of credit with its bank.
- Acquired key lands in highly prospective oil plays in Saskatchewan and Alberta.
- Identified and evaluated an international exploration opportunity, the details of which are currently being negotiated.
- Made a cash offer for all the outstanding shares of Rangeland Resources Ltd. which was completed on March 6, 1997.
- Subsequent to year end, reached agreement on acquiring certain assets held by Stateside Oil Corporation.

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1996 Review

Deena spent $1.5 million on exploration and development activities in 1996. The Company participated in 4 wells, all of which were classified as exploration wells. All drilling activity was situated in Alberta, resulting in 1 oil well and 1 gas well, both of which are currently producing. Production at the end of the year was about 300 Boe/d, 65% being gas. Deena acquired specific undeveloped lands totalling about 1,000 net acres during the year.

Financial results for 1996 reveal a net loss of $342,536 with cash flow from operations of $472,450, a slight improvement over 1995. The Company's results were impacted by production problems and high maintenance and remedial expenditures. Unit lifting costs and Administrative costs were moderately higher, increasing by 6% and 3% respectively over 1995. The Company ended the year with about a $1,200,000 draw on its bank line, which was reduced to roughly $700,000 by the end of February, 1997. Deena successfully increased the limit on its bank line of credit to $1,800,000 in 1996.

Over the year, Deena bought back shares under the provisions of a normal course issuer bid. The Company purchased 89,500 common shares at an average price of

$0.33 per share. In addition, the Company issued 721,446 flow through shares in December at a price of $0.36 per share to management and insiders. At the end of 1996, Deena had approximately 11.9 million basic common shares outstanding.

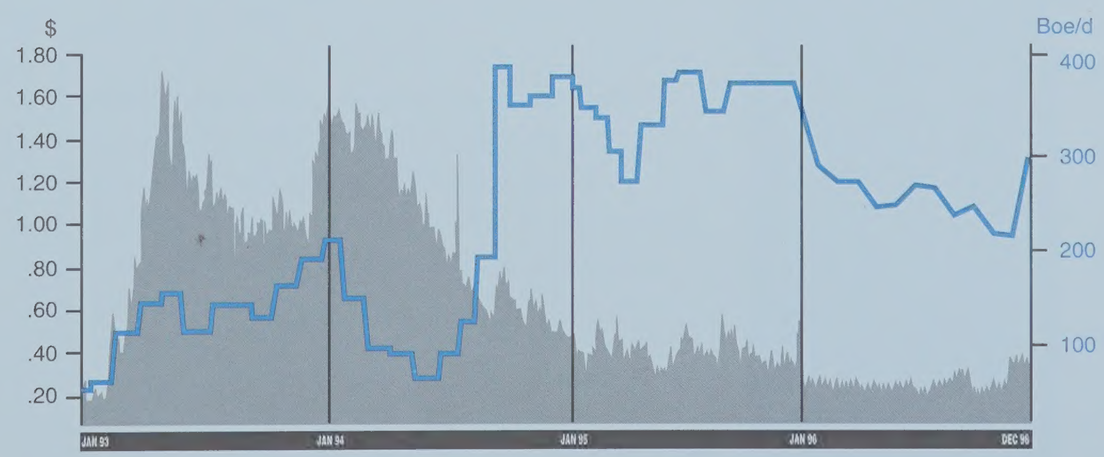
Deena Strategy and Direction

Deena made certain strategic steps in the latter part of 1996 which will have a significant impact on the Company in the future. First, Deena, through various relationships, was presented with a foreign exploration opportunity. It has not been a Company policy to pursue international ventures due to the high costs and risks involved. However, the Company is always prepared to evaluate business opportunities as they arise. Deena conducted a thorough evaluation and due diligence process on this particular opportunity which yielded highly satisfactory results. The Company is pursuing this opportunity and while a formal announcement is preliminary at this time, Deena is in negotiations with a substantial foreign entity to establish a joint venture to explore certain concessions.

Transactions total almost $17 million and quadruple size of Deena

Also, Deena identified a corporate opportunity and made an offer to acquire all the shares of Rangeland Resources Ltd. for cash. Subsequent to year end, the offer was accepted and the Rangeland purchase closed on March 6, 1997. The Company has also negotiated a complimentary acquisition for additional interests in the key Haynes property of central Alberta. These transactions total almost $17 million and quadruple the size of Deena.

Production vs Share Price



Deena will remain focused on exploration and drilling to generate growth. With its increased size, the Company will have the mass and internal resources to fully exploit its extensive portfolio of domestic drilling opportunities. With its foreign venture, the Company will have exposure to significantly higher reserve potential than is achievable in Western Canada. Through these steps, Deena is fullfilling its commitment to achieving profitable growth and enhancing shareholder value.

1997 Outlook

For 1997, Deena expects to spend $1.5 to $2.0 million in the drilling of 10 to 15 wells. The majority of these wells will be Deena operated and will evaluate internally generated prospects. Base cash flow is expected to be in the $3.0 million range and incremental amounts will be used to reduce bank debt. This cash flow level represents the Company's estimate at base production rates of 1,000 Boe/d and commodity prices of US$20/B WTI for oil and $1.60/Mcf for gas. In addition, the Company hopes to begin seismic activity on its foreign project in the fall with the objective of spudding a well before year end.

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J.W. (Grant) Robertson
President
April 30, 1997

Review of Operations

Land

Deena ended the year with roughly 6,000 net acres of undeveloped land, an increase of 20% over 1995. The lands are located primarily in Alberta (64%), and Saskatchewan (34%) with average working interests of 35%. Deena continues to focus its land acquisition activities on parcels on which the Company had identified drillable prospects. The acquisition of Rangeland Resources will add another 5,700 net acres of undeveloped land in Manitoba and Alberta.

Drilling

Deena participated in drilling 4 gross wells in 1996 (1.4 net) all of which were situated in Alberta and were exploratory. Of these wells, 1 oil well and 1 gas well were completed and placed on production in the Alderson area. Results from both these wells are encouraging and will lead to development activities in 1997. The other two wells, situated in Pine Creek and Giroux, were dry and abandoned.

Acquisitions will increase production to 1,000 Boe/d and add 5,700 net acres of undeveloped land

The Company plans on drilling 10 to 15 wells (4 to 7 net) in 1997, with about 90% directed to oil targets. Drilling activity is slated for 10 different areas with key areas being Alderson and Haynes in Alberta; Steelman and Willmar in Saskatchewan and Sinclair in Manitoba. The Company will be operating all but 2 of these wells and will have an average working interest in excess of 40%.

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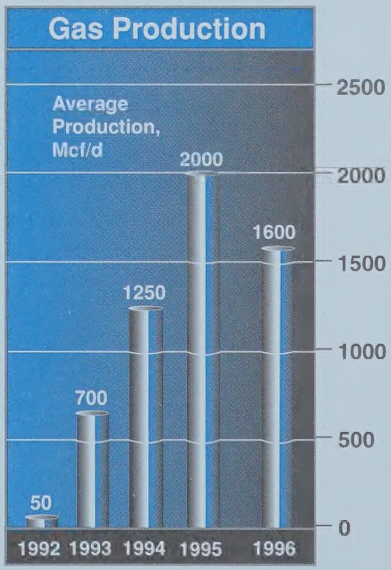
Production

Production averaged 250 Boe/d for 1996 (60% gas), a decrease of 15% from 1995. Operational problems were encountered in several properties over the course of the year and the resulting downtime impacted average production rates. By year end, Deena's production was back up to the previous year's level of 300 Boe/d.

In December, Deena reached an agreement to sell certain producing properties in the Willmar area, reducing the Company's production capability by 30 B/d. Year end production was 1.8 Mmcf/d gas and 120 B/d of oil production. Major producing properties were Pine Creek (30%), Haynes (30%) and Alderson (30%).



Rangeland will add about 500 Boe/d to the Company, of which 80% is oil. The key property is Haynes, which contributed about 65% to 70% of Rangeland's overall production.

In early 1997, Deena negotiated the purchase of additional interests in the Haynes pool which will add a further 300 Boe/d (90%) oil at a cost of $6.76 million. It is expected this acquisition will close in May 1997. By mid year, with the completion of these acquisitions, Deena's production should be approximately 1,000 Boe/d.

Reserves

Deena's proved reserves for the year (as determined by independent engineers Outtrim Szabo Associates Ltd.), net of sales, and as of January 1, 1997, totaled 188 Mb of liquids and 2.2 Bcf of gas with a value of $3.1 million at a 15% Before Tax (BT) discount rate. Proved plus probable reserves total 310 Mb of oil and 3.0 Bcf of gas with an unrisked value of $5.5 million at a 15% BT discount rate. Proved reserve equivalent volumes (gas converted at 10:1) decreased moderately over 1995 due to asset sales, uncertain well performance, and limited production history for new wells. The acquisition of Rangeland will add proved reserves of 490 Mb of liquids and 1.5 Bcf of gas and proved plus probable reserves of 833 Mb of liquids and 2.0 Bcf of gas. The additional Haynes assets will increase proved reserves by 353 Mb of liquids and 0.5 Bcf of gas and proved plus probable reserves of 650 Mb of liquids and 0.7 Bcf of gas.

Acquisitions will increase proven reserves by 843 Mb of liquids and 2.0 Bcf of gas

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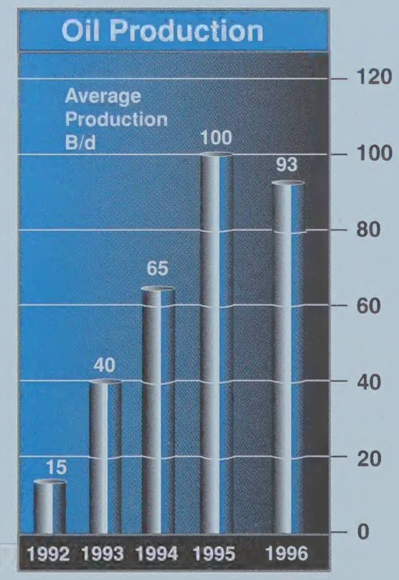
Exploration and Development Projects

Deena will continue to focus on exploration drilling to achieve growth. The Company has assembled an excellent array of exploration prospects over the past three years. The intent of the Rangeland share and Haynes asset purchase was to acquire quality assets which provide the Company with a stable cash flow base to drill these prospects. Deena's exploration prospects are characterized by seismically defined



features which provide multi-well drilling potential in areas which have production infrastructure in place. Deena holds high working interests, generally 40% to 90%, and operates the bulk of its prospects.

For 1997, Deena is planning to drill between 10 to 15 wells in separate project areas. Key project areas are discussed as follows:

Deena has a substantial inventory of drilling prospects

Haynes, Alberta

With the completion of the 1997 acquisitions, Deena will hold an 82% interest in Haynes and will operate. Production in the property reached 1,000 B/d of light oil in late 1996, but operational problems since that time have reduced sustainable average rates to about 650 B/d. Since gaining operatorship in March 1997, Deena commenced an optimization and upgrade program to

return the pool to higher rates. The results to date are encouraging and the field should be producing at higher rates by mid year. In addition, the Company has installed proprietary fluid handling facilities which have reduced operating costs substantially.

The medium term plan for the pool is to commence an intensive exploitation program. The program will be comprised of three phases and will involve; recompletions on existing wells, horizontal reentrys, and an infill drilling program. The Company expects to add substantial reserves and production with this program.

Alderson, Alberta

Deena holds working interests up to 45% in six sections in this area, all covered by 3D seismic. The Company has identified a number of high quality oil and gas drilling locations in various formations on this acreage. Two wells were drilled in Alderson in 1996 (41% and 25% working interests), both of which were successful and will lead to the development of substantial new reserves. Current production to the Company in the area is 80 to 100 Boe/d, of which 90% is gas. Deena is initially planning for three wells to be drilled in the area in 1997, one as a follow up to the 1997 discoveries and two to test new exploration concepts.

Willmar, Saskatchewan

Deena has interests from 40% to 73% in three sections in this area with current net production of 30 B/d. Deena has shot 3D seismic over the lands and has identified extensive Winnipegosis and Ordovician structures. The industry has been active in the area and a number of discoveries have been made, particularly in the Ordovician. The Company expects to drill a well to test the Winnipegosis/Ordovician in the third quarter of 1997. Wells in this formation can produce at 500 B/d.

Steelman, Saskatchewan

Deena has a 90% interest in lands acquired in the Steelman area. The Company has completed its technical work and will drill a well to the Frobisher in the third quarter of 1997. With a discovery, Deena may consider full pool development later in the year. Vertical wells from this zone typically average 100 B/d of light oil production.

Sinclair, Manitoba

Deena holds a 95% working interest in 5 sections in this area. Seismic suggests a substantial Tilston anomoly and the Company will evaluate the concept with a well later in 1997. Wells from this formation will produce in the 100 to 150 B/d range.

Lathom/Majorville, Alberta

Deena holds a 90% interest in two sections in Lathom where the Company has focused on the Glauconite, Sunburst and Arcs potential. In early 1997, the Company acquired interests in nearby Majorville (Deena 50% W.I.) where it has identified a Glauconite channel. The Company is currently negotiating a deal with another party to equalize on the Lathom lands for half of Deena's interest. A well is expected to be drilled in the latter part of 1997.

Sibbald, Alberta

The Company holds a 45% interest in 640 acres in the Sibbald area of east central Alberta. Deena operates the prospect and intends to drill a well in late 1997 to test a Glauconite concept. The Company is contemplating acquiring additional interests in the area prior to spudding the well.

Oxbow, Saskatchewan

Deena has acquired 4 sections offsetting a Midale discovery in which the Company was a participant. The Company holds 40% and operates the prospect which is seismically analogous to the offsetting pool. A well is anticipated to be drilled in late 1997.

Talbot Lake, Alberta

In early 1997 Deena acquired a 45% interest in 9.5 sections in the Talbot Lake area of northwest Alberta. The lands cover a number of seismically defined gas bearing structures in the Wabamun Formation. The area's gas gathering and processing system has available capacity for new production volumes. Drilling in the area is expected to commence in late 1997.

Deena has acquired acreage on other exploration projects, in Alberta and Saskatchewan. These projects are still in the formative stage and no drilling activity is slated for 1997. In addition, the Company has identified further strategic acquisitions which may occur during the course of the year.

International Opportunity - Vietnam

During the latter part of 1996, Deena became involved in a potential exploration opportunity offshore Vietnam. The Company is currently negotiating a joint venture with Idemitsu Oil and Gas, the oil and gas subsidiary of a substantial private company in Japan. Idemitsu has been an active and successful explorer in Vietnam for over 10 years. Their offshore activities have resulted in the acquisition and interpretation of thousands of kilometers of seismic leading to the drilling of a number of wells in two different basins.

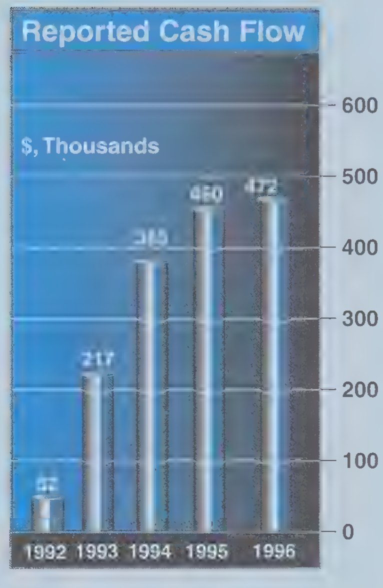
Deena and Idemitsu have met to discuss the technical merits of further evaluating six prospects with total reserve potential ranging from 800 million to 2.0 billion barrels recoverable. The prospects are located offshore in undisputed sovereign Vietnamese territory underlying approximately 30 meters of water. Activity will commence by shooting about 200 square kilometers of 3D seismic. Deena anticipates several high grade drilling locations to be identified once the data has been processed and interpreted. Startup for the project is anticipated for late 1997.

Marketing

One of Deena's objectives for 1996 was to achieve stability from its gas revenues. Previously, the Company produced almost 80% of its production to spot markets, which, in light of weak gas markets, resulted in wide fluctuations in revenues. By year end, virtually all Deena's gas production was produced to long term contracts. Currently, about 50% of production is produced to a TransCanada Pipelines Gas Services contract and the remainder to a CanStates Gas Marketing contract. Average gas prices for 1996 were about $1.25/Mcf, an increase of 9% over 1995. The average price is close to the average Alberta spot price for 1996 as the TCPL contract did not come into effect until August, and a significant portion of gas produced to the CanStates contract was not placed on stream until late November. With the contracts currently in place, average gas prices for 1997 could exceed $1.60/Mcf.

FINANCIAL

Revenues totaled $1.64 million for 1996 with average product prices of $26.41/B for oil and $1.25/Mcf for gas. Revenues are split 55:45 between oil and gas. While operating costs were 11% lower than 1996, per unit lifting costs were $6.40/Boe, 6% higher than 1995 due to operational problems at Haynes and Willmar. Royalty rates for 1996 were relatively constant with those of 1995 at 10.5% of resource revenue. The Company received ARTC of $62,200 in 1996. Administrative costs were 3% higher in 1996, reflecting higher interest charges. Expenses associated with wages, salaries and consulting fees were lower for the year.



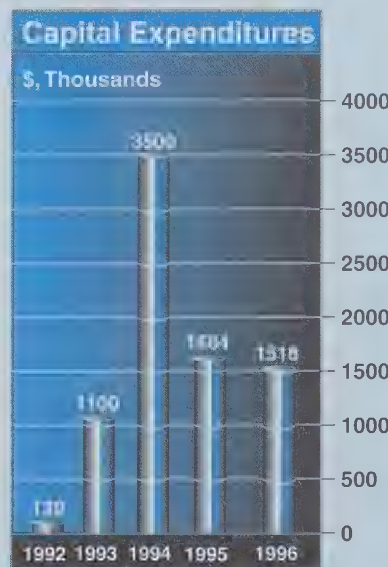
The Company's net income was ($342,000) while cash flow increased 3% to $472,450. Operating netbacks improved over 23% to almost $10.00/Boe.

Acquisitions will provide Deena with sizeable cash flow growth in 1997

Gross capital spending was $1.52 million for 1996. About 81% was spent on drilling and completion activities. Though the number of wells drilled was lower as compared to 1995, the Company held relatively higher working interests in the wells in which it participated. In addition, Deena was active in completing and evaluating wells drilled and cased in late 1995. Capital spending was financed through bank debt and cash flow.

DEENA ENERGY INC.

Deena, through a normal course issuer bid, purchased 89,500 shares at an average price of $0.33 per share, well below the Company's Net Asset Value (NAV). These shares were cancelled, reducing outstanding common shares to 11.87 million. The normal course issuer bid will expire in May, 1997. Deena issued 721,446 flow through shares to management and insiders for a total of $260,000 at the end of the year. Total shares outstanding with the flow through share issue will be 12.6 million.



Deena increased its line of credit for 1997 to $1.8 million. At the end of 1996, the Company had drawn $1.2 million for capital projects. By the end of February 1997, Deena had reduced this amount to about $700,000.

The purchase of 97% of Rangeland's shares was completed on March 6, 1997 at a cost of $9.6 million. Deena financed the acquisition using a combination of debt (40%), equity (10%) and the sale of a gross overriding royalty (50%) on certain of its assets. Deena will finance the acquisition of additional Haynes assets with debt and equity.

Outlook

Deena has over the past three years focused on establishing an attractive portfolio of exploration prospects. In the early part of 1997, the Company acquired assets to provide the base from which to exploit its exploration potential. Activity for the first part of 1997 will be dominated by these acquisitions as the Company closes the deals and completes the associated financings. Deena expects to have sufficient cash flow to pursue an aggressive drilling program in the second half of 1997.

Deena's capital program for 1997 is budgeted at between $1.5 million and $2.3 million, excluding any international activity. The bulk of the expenditures will be directed towards exploration drilling. Excess funds generated through cash flow will be used to reduce outstanding debt. Base cash flow for the year is estimated at $3.0 million with US$20/B WTI oil prices and $1.60/Mcf gas prices.

Management Report

The financial statements are the responsibility of the management of Deena Energy Inc. They have been prepared in accordance with generally accepted accounting principles.

Management is responsible for all financial information included in this report. Where necessary, management has made certain estimates based on their judgement and expertise. Management has implemented internal controls for the Company to insure the assets are properly safeguarded and that the financial records allow timely, accurate and reliable information.

McRae Gladstone Gillies, Chartered Accountants are independent auditors appointed by shareholders to examine the financial statements and report to shareholders. The board of directors have approved the financial statements upon the recommendation of the Audit Committee.

B. Schindel

J.W. Grant Robertson
President

C. Butch Schindel
Vice-President

AUDITORS' REPORT

To the Shareholders
Deena Energy Inc.

We have audited the balance sheets of Deena Energy Inc. as at December 31, 1996 and 1995 and the statements of operations, retained earnings (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1996 and 1995 and the results of its operations and the cash flows for the years then ended in accordance with generally accepted accounting principles.

MacRae Gladstone Gillies

Calgary, Alberta
February 26, 1997

CHARTERED ACCOUNTANTS

Balance Sheets

Assets

	as at December 31,	
	1996	**1995**
Current		
Receivables	$ 366,193	$ 609,249
Marketable securities (notes 3 and 4)	58,756	58,869
	424,949	668,118
Property and equipment (notes 3 and 5)	4,806,089	4,115,595
	$ 5,231,038	$ 4,783,713

Liabilities

Current		
Bank loan (note 6)	$ 1,190,331	$ 134,895
Accounts payable	211,631	693,695
Share deposit payable (note 7)	259,721	–
	1,661,683	828,590
Deferred abandonment costs	20,342	18,722
Deferred income taxes	–	14,950
	1,682,025	862,262

Shareholders' Equity

Share capital (notes 7 and 8)	3,702,024	3,731,926
Retained earnings (deficit)	(153,011)	189,525
	3,549,013	3,921,451
	$ 5,231,038	$ 4,783,713

Approved on behalf of the board:

B. Sobrind Director

Warren Beckley Director

Statements of Operations

	for the years ended December 31,	
	1996	**1995**
Revenue		
Oil and gas	$ 1,637,398	$ 1,685,454
Expenses		
Operating	584,583	657,756
Administrative	404,508	393,398
Royalties and lease payments, net	175,857	176,326
Depreciation and depletion	829,936	735,890
	1,994,884	1,963,370
Loss before the undernoted	(357,486)	(277,916)
Loss on disposal of marketable securities	–	(2,096)
Loss before income taxes	(357,486)	(280,012)
Recovery of income taxes (note 9)	14,950	147,418
Net loss for the year	$ (342,536)	$ (132,594)
Net loss per share	$ (0.03)	$ (0.01)
Weighted average number of common shares outstanding	11,884,525	12,253,317

Statements of Retained Earnings (Deficit)

	for the years ended December 31,	
	1996	**1995**
Retained earnings, beginning of year	$ 189,525	$ 322,119
Net loss for the year	(342,536)	(132,594)
Retained earnings (deficit), end of year	$ (153,011)	$ 189,525

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Statements of Cash Flows

for the years ended December 31,	1996	1995
Operating activities		
Net loss for the year	$ (342,536)	$ (132,594)
Non-cash items		
Depreciation and depletion	829,936	735,890
Deferred income taxes	(14,950)	(145,950)
Loss on disposal of marketable securities	–	2,096
Funds from operations	472,450	459,442
Changes in non-cash working capital items	20,826	125,107
	493,276	584,549
Financing activities		
Issuance (purchase) of share capital, net	(29,902)	(198,039)
Investing activities		
Purchase of fixed assets	(1,518,810)	(1,683,793)
Proceeds from disposal of fixed assets	–	820,650
Proceeds on disposal of marketable securities	–	19,364
	(1,518,810)	(843,779)
Decrease in cash	(1,055,436)	(457,269)
Cash (bank loan), beginning of year	(134,895)	322,374
Bank loan, end of year	$ (1,190,331)	$ (134,895)

DEENA ENERGY · INC.

for the year ended December 31, 1996

1. NATURE OF BUSINESS

The Company is engaged in the exploration and production of petroleum and natural gas in Western Canada. The Company is incorporated under the Canada Business Corporations Act.

2. BASIS OF PRESENTATION

The Company and its wholly-owned subsidiary, Altarich Energy Corp. were amalgamated effective January 1, 1996. The 1995 comparative figures are consolidated as they include the accounts of the Company and Altarich Energy Corp.

On November 12, 1996, the Company incorporated 716176 Alberta Ltd. This wholly-owned subsidiary has had no operations to December 31, 1996 and therefore is not consolidated in these financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are as follows:

a) MARKETABLE SECURITIES

Marketable securities are stated at the lower of cost and net realizable value. The marketable securities are recorded at net realizable value when there is considered to be a permanent impairment in their value.

b) PROPERTY AND EQUIPMENT

i) Petroleum and Natural Gas Properties

The Company follows the full cost method of accounting whereby all costs of exploring for and development of petroleum and natural gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical expenditures, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells and overhead expenses related to exploration activities. All recoveries of costs through sale of petroleum and natural gas properties, drilling incentive credits and petroleum incentive payments are credited against the cost of petroleum and natural gas properties. Gains or losses are only recognized when the Company disposes of a significant portion of its reserves.

The amounts recorded for depletion and depreciation of property and equipment and the provision for deferred abandonment costs are based on estimates. The cost ceiling is based on such factors as estimated proven reserves, production rates, oil and natural gas prices and future costs. By their nature, these estimates are subject to measurement uncertainty and may impact the financial statements of future periods.

ii) Depletion and Depreciation

Costs are amortized using the unit of production method based upon proven developed reserves derived from reports prepared by independent consultants and the Company. The costs of significant unevaluated properties are excluded from the costs subject to depletion. For depletion and depreciation purposes, relative volumes of petroleum and natural gas production and reserves are converted at the energy equivalent rate of 6 to 1.

iii) Ceiling Test

In applying the full cost method, the Company calculates a cost centre ceiling which restricts the capitalized costs less accumulated depletion and depreciation in each cost centre from exceeding an amount equal to the estimated future net revenues from proven reserves (after adjusting for estimated future general and administration costs and corporate income taxes, if any) plus the lower of cost and estimated fair value of the Company's undeveloped acreage.

iv) Equipment

Other fixed assets are recorded at cost and depreciation is provided as follows:

Petroleum and natural gas equipment	unit-of-production method based upon proven developed reserves
Furniture and equipment	20 - 30% declining balance basis

v) Flow-through common shares

The Company financed a portion of its exploration and development activities through the issue of flow-through common shares. Under the terms of the flow-through share agreements, the tax benefits of the related expenditures are renounced to the shareholders. To recognize the renunciation of the foregone tax benefits to the Company, the carrying value of the properties acquired and share capital are reduced by the estimated amount of the tax benefits renounced to shareholders when the expenditures are incurred.

c) Joint Venture

Substantially all the exploration and development activities related to petroleum and natural gas are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

d) Deferred Abandonment Costs

A provision is established for estimated future costs of site restoration of petroleum and natural gas production interests, including the removal of production facilities at the end of their useful life. Costs are based on management's estimates of the anticipated method and extent of site restoration. The annual charge, determined on the same basis as the depletion and depreciation of the underlying asset, is included in depletion and depreciation. Included in depreciation and depletion expense for the period is $1,620 (1995 - $12,698).

e) **Deferred Income Taxes**

The Company records income taxes on the tax allocation basis. Deferred income taxes result primarily from claiming exploration and development costs and capital cost allowance for income tax purposes in excess of the related depletion and depreciation recorded in the financial statements.

f) **Earnings per share**

Earnings per share is calculated based upon the weighted average number of common shares outstanding during the year.

4. Marketable Securities

The market value of the marketable securities at December 31, 1996 is $24,440 (1995 - $23,500).

5. Property and Equipment

Property and equipment is comprised of the following at December 31:

1996

	Cost	Accumulated Depreciation and Depletion	Net Book Value
Petroleum and natural gas properties	$ 5,241,868	$ 1,366,944	$ 3,874,924
Petroleum and natural gas equipment	1,365,872	487,313	878,559
Furniture & equipment	123,055	70,449	52,606
	$ 6,730,795	$ 1,924,706	$ 4,806,089

1995

	Cost	Accumulated Depreciation and Depletion	Net Book Value
Petroleum and natural gas properties	$ 3,927,576	$ 737,945	$ 3,189,631
Petroleum and natural gas equipment	1,161,125	307,363	853,762
Furniture & equipment	123,285	51,083	72,202
	$ 5,211,986	$ 1,096,391	$ 4,115,595

The Company capitalized $175,000 of overhead expenses pertaining to exploration and development activities to petroleum and natural gas properties in 1996 (1995 - $150,000).

Unevaluated properties with a cost of $805,904 (1995 - $702,871) have not been subject to depletion.

6. Bank Loan

During the year, the Company arranged a $1,800,000 authorized revolving demand loan. This bank loan bears interest at 0.75% over the prime lending rate of the Company's bank, requires a reduction in the authorized line of credit of $112,500 per quarter commencing September 30, 1996 and is secured by a floating charge over the petroleum and natural gas properties.

7. Share Deposit Payable

In December, 1996, the Company received $259,721 as a deposit for the purchase of 721,446 flow-through common shares. In January, 1997, the Company issued these flow-through common shares.

8. Share Capital

Authorized -

Unlimited number common voting shares

Unlimited number preferred shares with rights to be determined

Issued -

The issued common shares are as follows:

	Number of Shares	$
Balance, January 1, 1995	12,573,067	3,929,965
Purchased and cancelled in the year	(579,500)	(198,039)
Cancellation of shares	(30,000)	
Balance, December 31, 1995	11,963,567	3,731,926
Purchased and cancelled in the year	(71,500)	(24,686)
Purchased in the year	(18,000)	(5,216)
Balance, December 31, 1996	11,874,067	3,702,024

a) Purchase and cancellation of common shares

During the year, the Company purchased and cancelled 71,500 (1995 - 579,500) common shares under a Normal Course Issuer Bid. A premium was not paid to acquire the common shares over and above their average carrying value.

In addition, 18,000 common shares were purchased but not cancelled as at December 31, 1996.

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b) Stock Options

The following stock options to purchase common shares are outstanding at December 31, 1996:

Options Outstanding	Exercise Price per Share	Expiry Date
775,000	$0.20	August 25, 1998
375,000	$0.20	March 1, 1999
107,300	$0.20	May 24, 2000

9. Income Taxes

The income tax provision included in the determination of net income is calculated by applying Canadian federal and provincial statutory tax rates to pre-tax earnings, with adjustments as set out below:

	December 31			
	1996		**1995**	
	$	%	$	%
Combined Canadian federal & provincial income tax	(151,745)	(44.3)	(125,100)	(44.3)
Resource allowance	(41,900)	(12.2)	(31,700)	(11.2)
Alberta Royalty Tax Credit	(27,555)	(8.0)	(56,900)	(20.1)
Non-deductible crown royalties	70,380	20.5	78,100	27.6
Share issue costs	(38,700)	(11.3)	(38,700)	(13.7)
Unrecognized loss carry forward benefits	174,570	51.0	26,882	9.1
	(14,950)	(4.3)	(147,418)	(52.6)

At December 31, 1996, the following deductions were available for income tax purposes:

	$	Maximum Annual Rate of Claim
Canadian Oil and Gas Property Expenses	165,373	10%
Canadian Development Expenses	1,302,648	30%
Canadian Exploration Expenses	2,028,048	100%
Undepreciated Capital Cost	713,297	20 - 30%

10. Related Party Transaction

During the year, the Company paid management fees of $120,000 to a Company controlled by an officer and director of the Company. This amount has been capitalized as overhead to oil and gas properties as described in note 5.

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11. Subsequent Event

Subsequent to December 31, 1996, the Company has made a cash offer of $1.60 per share for all of the issued and outstanding shares of Rangeland Resources Ltd. The estimated purchase price is approximately $10 million to be financed as follows:

Sale of gross overriding royalties	$ 5,000,000
Sale of 2,000,000 flow-through common shares	1,000,000
Loan payable	3,000,000
Bank loan	1,000,000
	$ 10,000,000

It is anticipated that the loan payable would be repaid by the cash raised from a special warrants issue. The special warrant offering would entail the issuance of 3.7 million special warrants at $0.60 per special warrant for gross proceeds of $2,210,000. Each special warrant would be convertible into one common share and a warrant to purchase one common share exercisable at $0.90 per share for one year after closing of this offering.

Corporate Information

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Board of Directors

J. W. Grant Robertson
C. Butch Schindel
V. E. (Dale) Burstall
T. R. Tycholis
Warren D. Steckley

Officers

J.W. Grant Robertson, President
C. Butch Schindel, Vice-President

DEENA ENERGY · INC.

Auditors

McRae Gladstone Gillies
Chartered Accountants

Legal Counsel

Burstall Ward

Bankers

Hongkong Bank of Canada

Evaluation Engineers

Outtrim Szabo Associates Ltd.

Transfer Agent & Registrar

The R- M Trust Company

Stock Exchange

Alberta Stock Exchange
(Symbol DNG)

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1996 ANNUAL REPORT

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